

**REPORT OF THE AUDIT OF THE
GRAYSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE GRAYSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Grayson County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued a qualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances increased by \$199,135 from the beginning of the year, resulting in a cash surplus of \$2,361,671 as of June 30, 2003.

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$9,475,000. Future collections of \$15,714,640 are needed to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$407,439 as of June 30, 2003. Future principal and interest payments of \$439,126 are needed to meet these obligations.

Report Comment:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Internal Controls Over Payroll Processing Were Weak Resulting In Misappropriation Of Assets Of The County

Subsequent Event:

- The former Finance Officer was indicted May 4, 2004 on 15 counts of theft by failure to make required disposition of property valued at \$300 or more relative to Grayson County.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
GRAYSON COUNTY OFFICIALS	3
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY ARISING FROM CASH TRANSACTIONS	6
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE.....	12
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE.....	17
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE	21
NOTES TO FINANCIAL STATEMENTS	22
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE	37
SCHEDULE OF OPERATING REVENUE	41
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES	45
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	49
COMMENTS AND RECOMMENDATIONS	53
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Gary Logsdon, Grayson County Judge/Executive
Members of the Grayson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Grayson County, Kentucky, as of June 30, 2003, and the statement of cash receipts, cash disbursements, and changes in cash balances - governmental fund type, the statement of cash receipts, cash disbursements, and changes in cash balances - proprietary fund type and the related statement of cash flows - proprietary fund type for the year then ended. These financial statements are the responsibility of the Grayson County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Grayson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal controls over the payroll function were weak resulting in the misappropriation of county assets by a former employee. The extent of the ramifications of this internal control weakness cannot be determined.

In our opinion, except for the effects, if any, as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Grayson County, Kentucky, as of June 30, 2003 and its receipts and disbursements and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Gary Logsdon, Grayson County Judge/Executive
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In accordance with Government Auditing Standards, we have also issued our report dated February 13, 2004, on our consideration of Grayson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Grayson County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Internal Controls Over Payroll Processing Were Weak Resulting In Misappropriation Of Assets Of The County

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
February 13, 2004

GRAYSON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Gary Logsdon	County Judge/Executive
Steve Henderson	Magistrate
Alvin Dockery	Magistrate
Bill Skaggs	Magistrate
Jason Dennis	Magistrate
Anderson Logsdon	Magistrate
Curtis Wells	Magistrate

Other Elected Officials:

Tom Goff	County Attorney
Joey Stanton	Jailer
Carletta Farris	County Clerk
Carroll Gibson	Circuit Court Clerk
David Simon	Sheriff
James Blanton	Property Valuation Administrator
Ronald Hudson	Coroner

Appointed Personnel:

Rebecca Hayse	County Treasurer
Larry Holeman	Occupational Tax Collector
Sharon Vincent	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

GRAYSON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Type</u>		
	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 1,771,570	\$ 19,973	\$ 305,624
Certificates of Deposit	<u>225,000</u>		
Total Assets	<u>\$ 1,996,570</u>	<u>\$ 19,973</u>	<u>\$ 305,624</u>
<u>Other Resources</u>			
Amounts to be provided for in Future Years:			
Bond Payments (Note 4)	\$	\$	\$ 9,169,376
Capital Leases (Note 5)	<u>407,439</u>		
Total Other Resources	<u>\$ 407,439</u>	<u>\$ 0</u>	<u>\$ 9,169,376</u>
Total Assets and Other Resources	<u><u>\$ 2,404,009</u></u>	<u><u>\$ 19,973</u></u>	<u><u>\$ 9,475,000</u></u>

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

Proprietary Fund Type	Totals (Memorandum Only)
Enterprise	
\$ 70,556	\$ 2,167,723 225,000
\$ 70,556	\$ 2,392,723
\$	\$ 9,169,376 407,439
\$ 0	\$ 9,576,815
\$ 70,556	\$ 11,969,538

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

	Governmental Fund Type		
	General	Capital Projects	Debt Service
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Bonds:			
Series 1999 (Note 4)	\$	\$	\$ 9,475,000
Capital Leases (Note 5)	407,439		
Payroll Liabilities	31,052		
Total Liabilities	\$ 438,491	\$ 0	\$ 9,475,000
<u>Equity</u>			
Retained Earnings	\$	\$	\$
Fund Balances:			
Reserved		19,973	
Unreserved	1,965,518		
Total Equity	\$ 1,965,518	\$ 19,973	\$ 0
Total Liabilities and Equity	\$ 2,404,009	\$ 19,973	\$ 9,475,000

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

<u>Proprietary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Enterprise</u>	
\$	\$ 9,475,000
	407,439
	<u>31,052</u>
\$ 0	\$ 9,913,491
\$ 70,556	\$ 70,556
	19,973
	<u>1,965,518</u>
\$ 70,556	\$ 2,056,047
\$ 70,556	\$ 11,969,538

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

GRAYSON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>General Fund Type</u>		
	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Jail Fund</u>
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 1,561,931	\$ 1,949,138	\$ 6,093,051
Other Financing Sources:			
Transfers In	116,991		44,341
Capital Lease Proceeds		12,000	
Total Cash Receipts	<u>\$ 1,678,922</u>	<u>\$ 1,961,138</u>	<u>\$ 6,137,392</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,642,260	\$ 1,638,060	\$ 5,128,608
Other Financing Uses:			
Building/Equipment Fund Expenditures			
Construction Fund Expenditures			
Transfers Out	60,000	116,991	767,544
Bonds:			
Principal Paid			
Interest Paid			
Notes Payable:			
Principal Paid		81	
Capital Leases:			
Principal Paid	64,655	39,840	
Total Cash Disbursements	<u>\$ 1,766,915</u>	<u>\$ 1,794,972</u>	<u>\$ 5,896,152</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (87,993)	\$ 166,166	\$ 241,240
Cash Balance - July 1, 2002	<u>362,190</u>	<u>156,270</u>	<u>1,024,884</u>
Cash Balance - June 30, 2003	<u>\$ 274,197</u>	<u>\$ 322,436</u>	<u>\$ 1,266,124</u>

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE
 For The Fiscal Year Ended June 30, 2003
 (Continued)

General Fund Type		Special Revenue Fund Type	Capital Projects Fund Type		Debt Service Fund Type	
Local Government Economic Assistance Fund	E-911 Fund	Federal Grant Fund	Building/ Equipment Fund	Detention Facility Project - Construction Fund	Detention Facility Project - Bond Fund	Totals (Memorandum Only)
\$ 57,752	\$ 335,649	\$ 275,447	\$ 267	\$ 1,445	\$ 2,216	\$ 10,276,896
	95,389				732,155	988,876
						12,000
<u>\$ 57,752</u>	<u>\$ 431,038</u>	<u>\$ 275,447</u>	<u>\$ 267</u>	<u>\$ 1,445</u>	<u>\$ 734,371</u>	<u>\$ 11,277,772</u>
\$ 71,684	\$ 377,754	\$ 275,447	\$	\$	\$	\$ 9,133,813
			51			51
				113,864		113,864
				44,341		988,876
					225,000	225,000
					501,120	501,120
						81
	45,149					149,644
<u>\$ 71,684</u>	<u>\$ 422,903</u>	<u>\$ 275,447</u>	<u>\$ 51</u>	<u>\$ 158,205</u>	<u>\$ 726,120</u>	<u>\$ 11,112,449</u>
\$ (13,932)	\$ 8,135	\$	\$ 216	\$ (156,760)	\$ 8,251	\$ 165,323
99,461	9,097		19,703	156,814	297,373	2,125,792
<u>\$ 85,529</u>	<u>\$ 17,232</u>	<u>\$ 0</u>	<u>\$ 19,919</u>	<u>\$ 54</u>	<u>\$ 305,624</u>	<u>\$ 2,291,115</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

GRAYSON COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	Enterprise Fund Type
	<u> </u>
	Jail Canteen Fund
	<u> </u>
<u>Cash Receipts</u>	
Receipts	\$ 643,100
	<u> </u>
Total Cash Receipts	\$ 643,100
	<u> </u>
<u>Cash Disbursements</u>	
Expenditures	\$ 609,288
	<u> </u>
Total Cash Disbursements	\$ 609,288
	<u> </u>
Excess of Cash Receipts Over Cash Disbursements	\$ 33,812
Cash Balance - July 1, 2002	36,744
	<u> </u>
Cash Balance - June 30, 2003	\$ 70,556
	<u> </u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

GRAYSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	Enterprise Fund Type
	Jail Canteen Fund
Cash Flows from Operating Activities:	
Operating Income	\$ 33,812
Net Cash Provided by Operating Activities	\$ 33,812
Net Increase in Cash	\$ 33,812
Cash and Cash Equivalents - July 1, 2002	36,744
Cash and Cash Equivalents - June 30, 2003	\$ 70,556

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Grayson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Grayson County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Grayson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Grayson County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Grayson County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, E-911 Fund, and Occupational Tax Revolving Fund.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Federal Grant Fund of the Grayson County Fiscal Court is reported as a Special Revenue Fund Type.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Detention Facility Project – Bond Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Grayson County Capital Projects Fund Type includes the following county funds: Detention Facility Project – Construction Fund and the Building/Equipment Fund.

5) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Grayson County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets are not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Grayson County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Debt Service Fund Type because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require these funds to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts. The county considers certificates of deposit with a maturity date of three months or less when purchased to be cash equivalents. KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GRAYSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Grayson County Fiscal Court:

Grayson County Water Districts
 Grayson County Soil Conservation District

Grayson County Extension Service
 Grayson County Library

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$151,707 of public funds uninsured and unsecured.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 3. Deposits (Continued)

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 325,000
Collateralized with securities held by pledging depository institution in the county's name	2,478,613
Uncollateralized and uninsured	<u>151,707</u>
Total	<u>\$ 2,955,320</u>

Note 4. Long-Term Debt

On September 1, 1999, the County issued \$9,700,000 of General Obligation Improvement Bonds, Series 1999, at various interest rates (5.0% through 5.375%) for the purpose of construction of a Detention Center. These bonds are required to be fully paid within 25 years from the date of issue and are backed by the full faith and credit of the County. Future bond principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 489,494	\$ 240,000
2005	477,245	250,000
2006	464,370	265,000
2007	450,745	280,000
2008	436,495	290,000
2009-2013	1,941,318	1,700,000
2014-2018	1,438,894	2,205,000
2019-2023	771,453	2,865,000
2024-2025	<u>75,250</u>	<u>1,380,000</u>
Totals	<u>\$ 6,545,264</u>	<u>\$ 9,475,000</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Lease Agreements

- A. The county has entered into the following capital lease agreements, which are paid from the General Fund.

1) Voting Machines

On December 18, 1997, the County entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of voting machines in the amount of \$127,620 at 4.25% interest for a period of 10 years, with principal and interest paid monthly. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 2,246	\$ 13,323
2005	1,739	13,783
2006	1,189	14,786
2007	611	15,147
2008	87	7,201
Totals	<u>\$ 5,872</u>	<u>\$ 64,240</u>

2) Courthouse Annex

On May 28, 1999, the County entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding the construction of a courthouse annex in the amount of \$100,000 at 4.50% interest for a period of 5 years, with principal and interest paid monthly. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	<u>\$ 759</u>	<u>\$ 24,938</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Lease Agreements (Continued)

A. The county has entered into the following lease agreements, which are paid from the General Fund. (Continued)

3) Sheriff's Vehicles

On July 24, 2000, the County entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of Sheriff's vehicles in the amount of \$41,137 at 4.75% interest for a period of 5 years, with principal and interest paid monthly. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 757	\$ 9,240
2005	223	8,985
2006	3	1,430
Totals	<u>\$ 983</u>	<u>\$ 19,655</u>

4) Ambulance #1

On February 20, 2000, the County entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of ambulances in the amount of \$80,860 at 3.75% interest for a period of 5 years, with principal and interest paid monthly. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 1,361	\$ 18,472
2005	174	14,379
Totals	<u>\$ 1,535</u>	<u>\$ 32,851</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Lease Agreements (Continued)

A. The county has entered into the following lease agreements, which are paid from the General Fund. (Continued)

5) Ambulance #2

On July 20, 2001, the County entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of an ambulance in the amount of \$35,000 at 3.70% interest for a period of 6 years, with interest paid monthly and principal paid annually. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 1,069	\$ 5,000
2005	842	5,000
2006	607	5,000
2007	<u>274</u>	<u>10,000</u>
Totals	<u>\$ 2,792</u>	<u>\$ 25,000</u>

6) Computers and Copy Machine

On March 20, 2002, the County entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of computers and a copy machine in the amount of \$22,000 at 3.25% interest for a period of 4 years, with principal and interest paid monthly. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 491	\$ 5,514
2005	273	5,647
2006	<u>57</u>	<u>3,821</u>
Totals	<u>\$ 821</u>	<u>\$ 14,982</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Lease Agreements (Continued)

B. The county has entered into the following lease agreements, which are paid from the Road and Bridge Fund.

1) Truck and Equipment

On May 28, 1999, the County entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of a truck and equipment in the amount of \$175,600 at 3.75% interest for a period of 6 years, with principal and interest paid monthly. In addition to the regular monthly payments, during the fiscal year ended June 30, 2002, the County paid \$30,690 from the Building/Equipment Fund. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	<u>\$ 618</u>	<u>\$ 30,238</u>

2) Tractor/Mower

On May 16, 2001, the County entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of a tractor/mower in the amount of \$60,000 at 3.48% interest for a period of 5 years, with interest paid monthly and principal paid annually. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 1,642	\$ 10,000
2005	1,088	15,000
2006	<u>401</u>	<u>15,000</u>
Totals	<u>\$ 3,131</u>	<u>\$ 40,000</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Lease Agreements (Continued)

B. The county has entered into the following lease agreements, which are paid from the Road and Bridge Fund. (Continued)

3) Trucks

On April 21, 2003, the County entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of three trucks in the amount of \$51,000 at 2.67% interest for a period of 5 years, with interest paid monthly and principal paid annually. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 1,599	\$ 10,047
2005	1,251	10,123
2006	907	10,199
2007	559	10,276
2008	208	10,355
Totals	<u>\$ 4,524</u>	<u>\$ 51,000</u>

C. The county has entered into the following lease agreements, which are paid from the E-911 Fund.

1) Emergency 911 Equipment #1

On April 8, 1994, the County entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding for 911 equipment in the amount of \$210,000 at 5.369% interest for a period of 10 years, with interest paid monthly and principal paid annually. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	<u>\$ 959</u>	<u>\$ 26,000</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Lease Agreements (Continued)

C. The county has entered into the following lease agreements, which are paid from the E-911 Fund. (Continued)

2) Emergency 911 Equipment #2

On July 16, 1999, the County entered into a lease agreement with GTE Leasing Corporation for funding for 911 equipment in the amount of \$152,815 at 6.88% interest for a period of 7 years, with principal and interest paid monthly. Due to an increase in the cost of debt and a change in some of the equipment, the agreement was amended on May 4, 2000 to the amount of \$155,587 at 7.52%. Future principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 5,109	\$ 23,569
2005	3,274	25,403
2006	1,296	27,381
2008	14	2,182
Totals	<u>\$ 9,693</u>	<u>\$ 78,535</u>

Note 6. Waterline Extension Grant

Grayson County Fiscal Court was awarded a community development block grant in the amount of \$436,000 from the U.S. Department of Housing and Urban Development to assist in the construction of water lines. The county receives grant funds from the Kentucky State Treasurer then disburses them to the Grayson County Water District. During fiscal year ended June 30, 2003 the County received and expended grant funds totaling \$275,447. The Grayson County Water District is required to have a single audit performed in accordance with U.S. OMB Circular A-133.

Note 7. Detention Center Accounting Functions

Beginning in fiscal year ended June 30, 2003, the County Jailer assumed responsibility for paying and accounting for Jail Fund expenditures. The County Treasurer still receives, deposits and records Jail Fund revenue in the receipts ledger, and receives and reconciles monthly bank statements to receipts. The County Jailer receives invoices from vendors, computes payroll for jail personnel, presents claims to fiscal court for approval, prepares Jail Fund checks, maintains the Jail Fund appropriation ledger and warrant distribution register, and reconciles monthly bank statements to disbursements. Jail Fund checks are co-signed by the County Jailer, in addition to the County Judge/Executive and County Treasurer.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2003, Grayson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Subsequent Event

The former Finance Officer was indicted May 4, 2004 on 15 counts of theft by failure to make required disposition of property valued at \$300 or more relative to Grayson County.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

GRAYSON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,334,920	\$ 1,561,931	\$ 227,011
Road and Bridge Fund	1,655,552	1,949,138	293,586
Jail Fund	5,274,155	6,093,051	818,896
Local Government Economic Assistance Fund	56,800	57,752	952
E-911 Fund	338,389	335,649	(2,740)
<u>Special Revenue Fund Type</u>			
Federal Grant Fund	<u>436,000</u>	<u>275,447</u>	<u>(160,553)</u>
Totals	<u>\$ 9,095,816</u>	<u>\$ 10,272,968</u>	<u>\$ 1,177,152</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 9,095,816
Add: Budgeted Prior Year Surplus			1,315,000
Budgeted Borrowed Money			100,000
Less: Other Financing Uses			<u>(875,846)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 9,634,970</u>

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SCHEDULE OF OPERATING REVENUE

GRAYSON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

Revenue Categories	GOVERNMENTAL FUND TYPE				
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type	Debt Service Fund Type
Taxes	\$ 1,952,805	\$ 1,952,805	\$	\$	\$
In Lieu Tax Payments	13,644	13,644			
Excess Fees	148,664	148,664			
Licenses and Permits	8,665	8,665			
Intergovernmental Revenues	7,497,947	7,222,500	275,447		
Charges for Services	132,366	132,366			
Miscellaneous Revenues	457,064	457,064			
Interest Earned	65,741	61,813		1,712	2,216
Total Operating Revenue	<u>\$ 10,276,896</u>	<u>\$ 9,997,521</u>	<u>\$ 275,447</u>	<u>\$ 1,712</u>	<u>\$ 2,216</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

GRAYSON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 785,928	\$ 761,475	\$ 24,453
Protection to Persons and Property	4,834,625	4,634,673	199,952
General Health and Sanitation	109,437	105,913	3,524
Social Services	500		500
Recreation and Culture	110,822	84,239	26,583
Roads	1,410,331	1,395,946	14,385
Debt Service	18,593	20,846	(2,253)
Capital Projects	125,000	125,000	
Administration	1,803,734	1,730,274	73,460
 Total Operating Budget - General Fund Type	 \$ 9,198,970	 \$ 8,858,366	 \$ 340,604
Other Financing Uses:			
Transfers to Detention Center			
Corporation Bond Fund -			
Principal	225,000	225,000	
Interest	501,120	501,120	
Borrowed Money -			
Principal on Note Payable	81	81	
Capital Lease Agreements -			
Principal on Leases	149,645	149,645	
 TOTAL BUDGET - GENERAL FUND TYPE	 \$ 10,074,816	 \$ 9,734,212	 \$ 340,604

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Capital Projects	\$ 436,000	\$ 275,447	\$ 160,553

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gary Logsdon, Grayson County Judge/Executive
Members of the Grayson County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Grayson County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated February 13, 2004, in which we issued a qualified opinion. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Grayson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendation.

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grayson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial report and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect Grayson County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

- Internal Controls Over Payroll Processing Were Weak Resulting In Misappropriation Of Assets Of The County

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
February 13, 2004

COMMENTS AND RECOMMENDATIONS

GRAYSON COUNTY
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2003

REPORTABLE CONDITION

Internal Controls Over Payroll Processing Were Weak Resulting In Misappropriation Of Assets Of The County

The county's internal controls over the payroll function did not contain sufficient checks and balances. Consequently, during our audit we found that the finance officer of the county had fraudulently transferred funds for her personal benefit and paid county funds for health insurance benefits for her and certain other employees without authorization. After the former employee was terminated, the County Judge/Executive and County Treasurer requested our assistance in developing appropriate internal controls over the payroll system. A payroll system was developed that significantly improved internal controls over the payroll system. The new procedures were immediately placed in operation.

The finance officer was dismissed and was indicted May 4, 2004, on 15 counts of theft by failure to make required disposition of property valued at \$300 or more.

County Judge/Executive Gary Logsdon's Response:

None.

NONCOMPLIANCE

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On August 31, 2002, \$151,707 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Gary Logsdon's Response:

None.

PRIOR YEAR FINDING

The following finding was reported in the prior year audit report. It has not been corrected and is repeated in this report.

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

GRAYSON COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

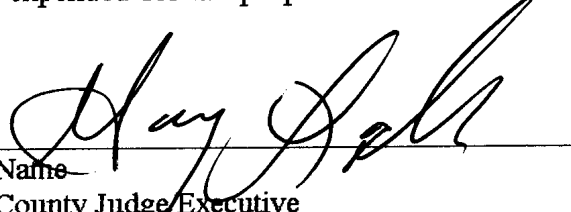
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

GRAYSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Grayson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

